



RETIREMENT SYSTEM OF THE CITY OF DETROIT

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MINUTES

Meeting No. 20

Meeting of the General Retirement System Investment Committee

DECEMBER 5, 2016

A meeting of the Investment Committee of the General Retirement System of the City of Detroit was held on Monday, December 5, 2016, at the Retirement System's office at Ally Detroit Center, 500 Woodward Suite 3000; Detroit, Michigan. Ken Whipple, Chair, called the meeting to order at 12:00 p.m. A quorum was present.

ROLL CALL:

Attendance was taken by the Recording Secretary with the following Committee Members present: Ken Whipple, (Chair), David Sowerby (Vice Chair), Doris Ewing (Secretary), June Nickleberry, Kerrie L. Vanden Bosch, Robert Rietz and Thomas Sheehan.

Others Present: Cynthia A. Thomas (*Executive Director*), Ryan Bigelow (*Chief Investment Officer*), Michael Krushena (*Investment Officer*), Michael VanOverbeke (*General Counsel – VanOverbeke, Michaud and Timmony, P.C.*), LaMonica Arrington-Cabean (*Manager II*), Kristin Finney-Cooke and Kevin Leonard, (*Investment Consultants - NEPC*).

Visitors Present: Ronald L. Rose, Executive Director, State of Michigan Department of Treasury of the Financial Review Commission/City of Detroit. John Naglick, City of Detroit Finance Director.

APPROVAL OF AGENDA

Motion #16-20-01: Thomas Sheehan moved to approve the Agenda as presented. Doris Ewing seconded. Motion passed.

APPROVAL OF MINUTES

Motion #16-20-02: Thomas Sheehan moved to approve the Minutes of Meeting No. 019, held on Monday, October 17, 2016. Robert Rietz seconded. Motion passed.

PRESENTATIONS:

Cheiron – w/John Naglick

Representatives of Cheiron, Gene Kalwarski and Mike Noble, appeared before the Investment Committee to give a presentation of the Retirement Systems assessment of the system's funding method and how Cheiron can develop a funding model starting with fiscal year 2018.

- *David Sowerby joined the IC Meeting at 12:06 p.m.*

Presentation materials were provided.

~Concludes Presentation~

Gabriel Roeder Smith & Company

Representatives Judith Kermans, Ken Alberts and David Kausch appeared before the Investment Committee to discuss the GASB No. 67 Reports for Components I & II and actuarial assumptions of determining funding level of the Retirement System.

Presentation materials were provided.

Motion #16-20-03: Robert Rietz moved to accept the report and presentation at today's meeting of December 5, 2016 of the GASB No. 67 Plan Reporting and Accounting Schedules of Component II, ending June 30, 2016. Thomas Sheehan seconded. Motion passed.

- *June Nickleberry joined the IC Meeting at 1:30 p.m.*

Motion #16-20-04: Robert Rietz moved to accept the report and presentation at today's meeting of December 5, 2016 of the GASB No. 67 Plan Reporting and Accounting Schedules of Component I, ending June 30, 2016. Thomas Sheehan seconded. Motion passed.

Re: Adoption of Actuarial Assumptions for purposes of determining funding level and mandatory employee contributions for Component I of the Retirement System

Resolution Moved By: Robert Rietz – Supported By: David Sowerby

WHEREAS, the Board of Trustees of the General Retirement System of the City of Detroit is vested with the authority and fiduciary responsibility for the administration, management, and operation of the Retirement System, and

WHEREAS, the provisions of the plan are subject to the applicable provisions of the Internal Revenue Code, applicable state law, the applicable charter and ordinance provisions of the City of Detroit and the Combined Plan for the General Retirement System, and

WHEREAS, Section 9.5 of the Combined Plan titled “*Fiscal Responsibility: Increased Funding Obligations and Benefit Reductions*,” provides generally that to “safeguard the long-term actuarial and financial integrity of the Retirement System” in the event the funding level of Component I of the Retirement System projected over a five-year period falls below specified targets, the Board is required to take established remedial actions, and

WHEREAS, Section 9.5(3) further provides that “the actuarial accrued liability of Component I shall be calculated by the Plan’s Actuary utilizing an interest rate assumption of six and three-quarters percent (6.75%) and other reasonable assumptions as directed by the Board upon the recommendation of the Investment Committee” (emphasis added), and

WHEREAS, the Retirement System’s actuary, Gabriel Roeder Smith & Company, in its initial June 30, 2014 Annual Actuarial Valuation of Component I, has raised certain questions and requested clarification/confirmation from the Board and the Retirement System’s Investment Committee with respect to the assumptions to be utilized for the implementation of Section 9.5 and performance of the required five-year projection, and

WHEREAS, the Board has discussed this matter amongst the Board members, and with its Actuary and General Counsel; **THEREFORE BE IT**

RESOLVED, that upon recommendation of the Retirement System’s Investment Committee, the following guidelines are hereby adopted by the Board and shall be utilized by the actuary in completing the five-year projections as required in Section 9.5 of the Combined Plan:

1. The five-year projections should be based on the general valuation assumptions as previously adopted by the Board (e.g., inflation, mortality, retirement, withdrawal, etc.).

2. Section 9.5(1) provides that Variable Pension Improvement Factor ("VPIF") benefits will only be granted in the event the plan is projected to be over 100% funded. It is the considered opinion of the Board that the mandatory employee contributions as set forth in the plan based upon the five-year projections required by Section 9.5 are intended to fund base benefits in the normal course and not VPIF benefits. Accordingly, it is the funding policy of the Board to not include any projected future VPIF benefits in the five-year projection calculations. However, in the future and to the extent that VPIF benefits have been granted to retirees at the time of the five-year projection, that Actuary shall assume continuation of those previously granted VPIF benefits except as otherwise provided in Section 9.5(2) of the Combined Plan. For purposes of completing the five-year projection in any given year, an initial projection is to be completed demonstrating the effect of an award of the VPIF benefit to qualified retirees in the following Plan Year. If the Plan continues to be funded at a level greater than 100%, the VPIF may be awarded by the Board and IC in accordance with the Plan provisions. In the event the funding level in the initial projection is less than 100%, a second projection shall be performed to verify if any of the remedial measures required under Section 9.5 are necessary.
3. Transition Costs should not include an assumption of future VPIF benefits. Since there is a separate funding source established in the Combined Plan for payment of Transition costs through 2023 [Section E-16(c)], Transition Costs should be excluded from the Section 9.5 tests until fiscal year 2024. The Transition Costs shall be determined as of July 1, 2014 (without an assumption for payment of future VPIF benefits and financing of the Transition costs shall be calculated based upon a level dollar amortization of the Initial Transition Cost over a 9-year fixed amortization period and the Retirement System's Investment Return Assumption of 6.75%).
4. Component II ASF balances are assumed to be withdrawn as a level dollar amount over the next 10 years, however voluntary employee contributions into the Component I Annuity Savings Fund shall be assumed to continue at the historical levels as previously contributed to the Component II ASF. For Transition Funding purposes, an appropriate arbitrage of the difference between the assumed rate of investment return of 6.75% and the maximum interest rate that can be credited to the ASF Accounts of 5.25% should be used for both the Component I and Component II ASF Accounts.
5. The Component I assets shall include the Rate Stabilization Fund to the extent the plan is less than 100% funded.
6. The Annual Actuarial Valuation for the fiscal year ending June 30, 2015 shall generate the first five-year projection. Upon receipt of the June 30, 2015 valuation, a determination shall be made whether any remedial action is required. In the event remedial action is required, such remedial action shall be effective July 1, 2017 [Section 9.5(1)].

7. The funding value of plan assets for purposes of Section 9.5 testing of the Component I plan funding level would otherwise be based upon a three (3) year smoothing method wherein the assumed investment income of 6.75% will be recognized fully each year and the differences between actual and assumed investment income shall be phased in over a closed three (3) year period. The Actuary has opined that since the projection period is for a five (5) year period, the use of a three (3) year smoothing period is of no consequence and would result in an asset value that is not materially different than projecting the current market value of assets out five (5) years at the assumed rate of return of 6.75%. According the projection shall utilize the market value of the portfolio using the 6.75% rate of return. – [Section 9.5(3)].
8. The forgoing assumptions shall be utilized for both the 100% projection test in Section 9.5(1) and the 80% projection test in Section 9.5(2).
9. The required actions set for in Section 9.5(2), if any, shall be reflected in the projections by the addition of each item in the order listed, until the appropriate threshold is reached. Illustrated as follows:
 - i. Perform the first projection ignoring all the 9.5(2) actions. If the projected funded status was less than 80%, then the Actuary is to re-perform the projection reflecting the action in 9.5(2)(a). If the projection results in a funding level that is still below 80%, the projection is to be re-performed reflecting the action in 9.5(2)(b); and so on. Once the 80% threshold is met, such projection would reflect the required actions under Section 9.5(2) that are to be taken.

FURTHER RESOLVED, that a copy of this resolution be provided to the GRS Investment Committee with a request that the Committee make formal recommendation to the Board of the adoption of the assumptions and guidelines provided herein, and

FURTHER RESOLVED, that a copy of this resolution be maintained in the Retirement System records, and a copy be provided to the Board's Actuary and Auditor.

Yea: Ewing, Nickleberry, Rietz, Sheehan, Sowerby, Vanden Bosch, Whipple – 7

Nays: None

~Concludes Presentation~

RECESS

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The Committee recessed at 2:20 p.m. and reconvened at 2:30 p.m.

PRESENTATION:

NEPC

The Consultants of NEPC, Kristen Finney-Cooke and Kevin Leonard appeared before the Committee to discuss hedge fund equity growth, manager reviews and the quarterly investment performance report. Presentation materials were provided.

Following discussion for the investment manager review, the following recommendations were made by NEPC and concurrence of the Chief Investment Officer.

Re: Hedge Fund Manager

Motion #16-20-05: Doris Ewing moved to hire AQR and Corbin. David Sowerby seconded. Thomas Sheehan opposed.

The Motion passed.

Re: Large Cap Growth Manager

Motion #16-20-06: David Sowerby moved to hire Edgewood Management; subject to contract and fee agreement. Robert Rietz seconded. Motion passed.

Re: Large Cap Value Manager

Motion #16-20-07: June Nickleberry moved to terminate Aronson Johnson ("AJO") and hire NorthPointe Capital and Barrow, Hanley. Robert Rietz seconded.

Yea: Nickleberry, Rietz, Sowerby, Vanden Bosch, Whipple – 5

Nay: Ewing, Sheehan - 2

The Motion passed.

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Re: GMO Global Asset Allocation

Motion #16-20-08: Kerrie Vanden Bosch moved to terminate GMO predominantly for issues related to underperformance and organizational changes. Robert Rietz seconded. Motion passed.

Yea: Nickleberry, Rietz, Sowerby, Vanden Bosch, Whipple – 5

Nay: Ewing, Sheehan – 2

~Concludes NEPC's Presentation~

CHIEF INVESTMENT OFFICER'S REPORT

Chief Investment Officer, Ryan Bigelow, provided a report for actionable items and updates for discussion and approval:

Re: American Realty Advisors ("ARA")

Motion #16-20-09: Doris Ewing moved to acknowledging and approving the Second Amendment to the Real Estate Investment Advisory and Asset Management Agreement with American Realty Advisors and Third Amendment to Second Amended and Restated Agreement of Limited Partnership of MGRA Genesis Value Fund LP and the Amendment to Investment Management Agreement. David Sowerby seconded. Motion passed.

Re: Securities Litigation Policy

This matter will be brought back before the IC for discussion.

~Concludes CIO's Report~

LEGAL REPORT

General Counsel, Michael VanOverbeke, provided a written report of the following informational items for discussion and actionable items for approval:

- Administrative Report
- Annual Review of the IC Investment Policy Statement
- Summary of the Annual Report

Re: Recommendation for the Reappointment and Continued Service of Ken Whipple

Resolution Moved By: Kerrie Vanden Bosch – Supported By: Robert Rietz

WHEREAS, the Investment Committee of the General Retirement System of the City of Detroit (“Investment Committee”) serves in a fiduciary capacity and was established for the purpose of making recommendations to and approving actions by the Board of Trustees of the General Retirement System of the City of Detroit (“GRSD Board”), and

WHEREAS, pursuant to the Combined Plan Document, the Investment Committee shall consist of seven (7) members; five (5) of whom are independent members pursuant to Section 1.20(1) of the Combined Plan Document, and

WHEREAS, the initial term of the Committee Chair Ken Whipple, one of the initial independent Investment Committee members, is set to expire on December 31, 2016, and

WHEREAS, pursuant to Section 1.21 of the Combined Plan Document “notwithstanding any provision of this Combined Plan Document, an Initial independent Investment Committee member shall not be prohibited from becoming a successor independent Investment Committee member after expiration of his or her initial term,” and

WHEREAS, pursuant to Section 1.21 of the Combined Plan Document “[s]uccessor independent Investment Committee members shall be recommended by a majority of the remaining independent Investment Committee members and shall be confirmed by the Board and the Treasurer of the State of Michigan (“State Treasurer”), in consultation with the Foundation, pursuant to such rules and regulations as may be adopted by the Investment Committee (provided that such rules are not inconsistent with the Governance Term Sheet or the Plan of Adjustment),” and

WHEREAS, the Investment Committee and the remaining independent Investment Committee members have considered Mr. Whipple’s qualifications and service to the Investment Committee; **THEREFORE BE IT**

RESOLVED, that the Investment Committee hereby confirms the recommendation of the remaining independent Investment Committee members that Ken Whipple continue as a successor independent Investment Committee member for a full six-year term, and be it further

RESOLVED, that the remaining independent Investment Committee members recommend to the GRSD Board, the State Treasurer and the Foundation for Detroit’s Future that Mr. Whipple continue as a successor independent Investment Committee member for a full six-year; and be it further

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Re: Recommendation for the Reappointment and Continued Service of Ken Whipple – (Con't)

RESOLVED, that a copy of this resolution be forwarded to the GRSD Board, the State Treasurer, and the Foundation requesting confirmation of such reappointment, and be it further

RESOLVED, that a copy of this resolution be maintained in the Investment Committee's and the Retirement System's records.

Yea: Ewing, Nickleberry, Rietz, Sheehan, Sowerby, Vanden Bosch – 6

Nays: None

Abstain: Whipple – 1

Re: Advisor and Consultant Review Policy and Securities Litigation Policy

This matter was referred to the Administrative Sub-committee to review.

Re: 2017 – Investment Committee Meetings

January 30, 2017
12:00 Noon - Conference Room

March 6, 2017
12:00 Noon - Conference Room

May 25, 2017
12:00 Noon - Conference Room

July 17, 2017
12:00 Noon - Conference Room

September 11, 2017
12:00 Noon - Conference Room

October 30, 2017
12:00 Noon - Conference Room

December 11, 2017
12:00 Noon - Conference Room

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Re: Election of Chair for 2017

Motion #16-20-10: Thomas Sheehan moved to approve David Sowerby be designated as Chair of the Investment Committee of the General Retirement System of the City of Detroit, effective January 1, 2017. Doris Ewing seconded. Motion Passed.

Re: Election of Vice-Chair for 2017

Motion #16-20-11: Thomas Sheehan moved to approve Kerrie Vanden Bosch as Vice-Chair of the Investment Committee of the General Retirement System of the City of Detroit, effective January 1, 2017. June Nickleberry seconded. Motion Passed.

FUTURE AGENDA ITEMS/DISCUSSION

- Administrative Calendar
- IC's Newsletter
- IC Chairs for General/PFRS will be meeting w/Gabriel, Roeder, Smith & Co., Monday, December 12, 2016, at 9:00 a.m.

PUBLIC/MEMBER COMMENTS

- None

ADJOURNMENT

There being no further business before the IC, **Chairman Whipple** adjourned the meeting at 5:20 p.m. The IC's next regular scheduled meeting is **Monday, January 30, 2017** at 12:00 p.m. in the Retirement Systems' Conference Room, 500 Woodward Avenue Suite 3000; Detroit, Michigan 48226.

RESPECTFULLY SUBMITTED,



RYAN BIGELOW
CHIEF INVESTMENT OFFICER

Recording Secretary: Rita Coats